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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

O 5018
O-35547

FORM 10-Q

(Mark One)
X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SEC[illegible]ITIES EXCHANGE ACT OF 1934

PROCESSED BY
9-9-14
APR 6 1992

For the quarterly period ended June 30, 1991

OR

[illegible]IES
TRANSITION REPORT PURSUANT TO SE[illegible] EXCHANGE ACT OF 1934

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For the transition period from _____ to _____

Commission File Number ~~35-4259C~~ C-4331

IMAGE SYSTEMS CORPORATION
(Exact name of registrant as specified in its charter)

Minnesota	41-1620497
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11543 K-Tel Drive, Hopkins, Minnesota	55343
(Address of principal executive offices)	(Zip Code)

(612) 935-1171
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _____ No X

As of March 18, 1992, there were 4,325,722 shares of Common Stock, $0.01 par value per share, outstanding.

BEST COPY AVAILABLE

Part 1. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

IMAGE SYSTEMS CORPORATION

BALANCE SHEETS

(Unaudited)

	June 30, 1991	December 31, 1990
ASSETS		
CURRENT ASSETS:		
Cash	$ 15,659	$ 6,816
Accounts receivable	87,692	126,406
Inventory	433,951	272,501
Prepaid expenses	29,339	3,970
Total current assets	566,641	409,693
FURNITURE, FIXTURES AND EQUIPMENT	12,066	14,346
OTHER ASSETS	1,490	1,490
Total assets	$580,197	$425,529
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Notes payable to officer (Note 2)	$251,094	$150,000
Accounts payable	163,935	87,247
Accrued liabilities	9,965	105,825
Total current liabilities	424,994	343,072
LONG-TERM NOTES PAYABLE TO OFFICERS (Note 2)	29,650	657,540
STOCKHOLDERS' INVESTMENT (Notes 2 and 3):		
Common stock, no par value, 10,000,000 authorized, 3,325,722 and 1,350,000 shares issued and outstanding	141,158	(575,083)
Deficit since June 5, 1991	(15,605)	-
	125,553	(575,083)
	$580,197	$425,529

See accompanying notes to financial statements.

Item 1. FINANCIAL STATEMENTS

IMAGE SYSTEMS CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	1991	1990	1991	1990
NET SALES (net of returns and allowances)	$ 167,098	$ 109,323	$ 361,529	$ 197,169
COST OF PRODUCTS SOLD	142,699	89,272	309,677	161,230
Gross profit	24,399	20,051	51,852	35,939
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	261,122	68,569	313,189	138,327
Operating loss	(236,723)	(48,518)	(261,337)	(102,388)
INTEREST EXPENSE	11,450	16,982	25,888	32,810
Net loss	$(248,173)	$ (65,500)	$(287,225)	$(135,198)
NET LOSS PER SHARE	$ (.08)	$ (.05)	$ (.13)	$ (.10)
AVERAGE COMMON SHARES OUTSTANDING	2,968,000	1,350,000	2,163,000	1,350,000

See accompanying notes to financial statements.

Item 1. FINANCIAL STATEMENTS

IMAGE SYSTEMS CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 1991 AND 1990

(Unaudited)

	1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(287,225)	$(135,198)
Adjustments to reconcile net loss to net cash used for operating activities-		
Depreciation and amortization	2,280	2,556
Common stock issued for services	147,491	-
Changes in current operating items:		
Accounts receivable	38,714	19,265
Inventory	(161,450)	(22,019)
Prepaid expenses	(25,369)	849
Accounts payable	76,688	(24,051)
Accrued liabilities	32,622	37,192
Cash flows used for operating activities	(176,249)	(121,406)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Furniture and fixtures and equipment additions	-	(4,891)
Cash flows used for investing activities	-	(4,891)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term notes payable to officers	120,092	94,254
Proceeds from issuance of common stock	65,000	-
Cash flows provided by financing activities	185,092	94,254
Increase (decrease) in cash	8,843	(32,043)
CASH AT BEGINNING OF PERIOD	6,816	54,745
CASH AT END OF PERIOD	$ 15,659	$ 22,702
SUPPLEMENTAL OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ -	$ 483

See accompanying notes to financial statements

Item 1. FINANCIAL STATEMENTS

IMAGE SYSTEMS CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1991 and 1990

(Unaudited)

1. ACCOUNTING POLICIES:

The information furnished in this report is unaudited but reflects all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods and are of a normal, recurring nature. The operating results for the six months ended June 30, 1991 are not necessarily indicative of the operating results to be expected for the full fiscal year. These statements should be read in conjunction with the Company's most recent audited financial statements included in the Company's Prospectus dated August 28, 1991.

2. SALE OF COMMON STOCK:

During May and June of 1991, the Company sold 120,000 shares of the Company's common stock to new shareholders at $.50 per share.

In April 1991, the Company commenced a public offering of 1,000,000 shares at $1 per share. The offering is expected to be completed in late October 1991. Offering costs incurred as of June 30, 1991 of $28,007 are included as prepaid expenses in the accompanying balance sheet. When the offering is complete, the offering costs will be reflected as a reduction of related proceeds in stockholders' equity.

3. TERMINATION OF S CORPORATION TAX ELECTION:

Effective June 5, 1991, the Company terminated its S corporation tax election. Accordingly, the accumulated deficit through June 5, 1991 of $1,046,703 was eliminated against common stock.

Since June 5, 1991, the Company has accumulated net operating loss carryforwards for federal income tax purposes of approximately $16,000 which expire in 2006. No income tax benefit has been reflected in the accompanying financial statements for this net operating loss carryforward.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company was formed on September 1, 1988 to design, assemble and market monitors for use with computers.

RESULTS OF OPERATIONS

Quarters Ended June 30, 1991 and 1990

Net sales for the quarter ended June 30, 1991 increased $57,775 or 53.0% over the comparable period in 1990. This increase was primarily due to an increase in marketing activity during 1991.

Gross profit increased $4,348 or 21.7% over the comparable period in 1990 and the gross profit percentage decreased from 18.3% to 14.6%. These changes were due to the addition of a color monitor to the product line during 1991. Color monitors have a lower gross profit per unit than other products.

Selling, general and administrative expenses for the three months ended June 30, 1991 increased $192,553 or 280.8% from the comparable period in 1990. This increase was due to the issuance of 294,982 shares of common stock to nonofficer employees for past services ($147,491) and an increase of one salesman.

Interest expense decreased by $5,532 primarily due to the conversion of the notes payable due to officers into common stock in April 1991.

Six Months Ended June 30, 1991 Versus June 30, 1990

Net sales for the six months ended June 30, 1991 increased $164,360 or 83.3% over the comparable period in 1990. This increase was primarily due to an increase in marketing activity during 1991.

Gross profit for the six months ended June 30, 1991 increased $15,913 or 44.3% over the comparable period in 1990, and the gross profit percentage decreased from 18.2% to 14.3%. These changes were due to a number of factors including the addition of a color monitor to the product line during 1991. Color monitors have a lower gross profit per unit than other products.

Selling, general and administrative expenses for the six months ended June 30, 1991 increased $174,682 or 126.4% over the comparable period in fiscal 1990 due to the issuance of 294,982 shares of common stock to nonofficer employees for past services ($147,491) and the addition of one salesman.

Interest expense decreased $6,922 over the comparable period in fiscal 1990 due to conversion of the notes payable due to officers into common stock in April of 1991.

Liquidity and Capital Resources

Cash used for operating activities for the six months ended June 30, 1991 totaled $176,249, an increase of $54,843 over the comparable period in 1990. This increase was primarily due to a buildup of inventories to meet market demand.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cash provided by financing activities for the six months ended June 30, 1991 totaled $185,092, resulting from the borrowing of additional long-term debt and the proceeds from sale of common stock.

The Company's primary source of liquidity at June 30, 1991 was cash of $15,649. The Company is currently in the process of completing a public offering of $1,000,000 shares at $1 per share. The Company believes that proceeds expected to be received from the public offering will be adequate to meet the anticipated short-term liquidity and capital resource requirements of its business.

IMAGE SYSTEMS CORPORATION
PART II
OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The Company did not file any reports on Form 8-K during the quarter covered by this Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 27, 1992

IMAGE SYSTEMS CORPORATION
Registrant

By _____
Dean Scheff, Chief Executive Officer

_____
Dean Scheff, Chief Executive Officer
(Principal Financial Officer)